SYSTEMIC CORPORATE SOCIAL RESPONSIBILITY: MICRO-TO-MACRO TRANSITIONS, COLLECTIVE OUTCOMES AND SELF-REGULATION

ABSTRACT

We call attention to the need to revitalize the systemic nature of corporate social responsibility (CSR) and offer some suggestions about how this might be accomplished. We introduce the concept of systemic CSR and associate it with micro-to-macro transitions, the need to make systemic objectives explicit, and the responsibility of system participants to regulate their behavior in order to contribute to these outcomes. We comment, from a systemic perspective, on four different management approaches to CSR—shareholder value, corporate social performance, stakeholder theory and corporate citizenship. Three general systemic principles that participants can use as decision-making guides are a focus on value creation, ongoing assessment of collective outcomes, and reflective engagement in the aggregation process. We conclude by commenting briefly on suggestions for future research.

Key Words: corporate social responsibility (CSR), systemic CSR, value creation, collective action, social dilemmas, micro-to-macro transitions

INTRODUCTION

Corporate social responsibility (CSR) is an inherently systemic concept, although it is rarely explicitly characterized as such. The purpose of this paper is to call attention to the need to revitalize CSR's systemic elements and to offer some suggestions about how this might be accomplished. In management, the definition of corporate social responsibility has been the topic of significant debate (Aguinis & Glavas 2012; Carroll 1999, 2008; Crane, McWilliams, Matten, Moon, & Siegel 2008; Garriga & Mele 2004; Mele 2008). Although no consensus has been reached, it now appears that a definitional truce is taking hold, with an increasing number of CSR scholars acknowledging that it is an "essentially contested concept" (Crane, McWilliams, et al. 2008: 5) that should be viewed as a gestalt or umbrella term for a number of different approaches to the business-society interface (Beal 2014; De Bakker, Groenewegen, & Den Hond 2005; Lockett, Moon, & Visser 2006; Okoye 2009). From this perspective, CSR is more of an identifying brand or loose association of related research streams than a singular theoretically (or empirically) viable construct (Rowley & Berman 2000).

Although we are comfortable with this ambiguity—and with the notion that CSR is a kind of meta-construct—we are concerned that this lack of definitional specificity renders CSR susceptible to co-optation or appropriation by different economic stakeholders with an interest in reframing CSR in terms of organizational competencies, competitive advantage and other business-level constructs (Baden & Harwood 2013; Kurucz, Colbert, & Wheeler 2008; Schreck 2011; Waddock & Graves 1997). However broadly the scholarly CSR community may define it, if CSR is to remain a distinctive and legitimate approach to the study of the relationship of business to society, it must provide a means of dealing with reputational positioning, greenwashing, window-dressing, and other self-interested organization-level behaviors that may—or may not—contribute to positive societal outcomes (Aguinis & Glavas 2012; Baden & Harwood 2013; Cai, Jo, & Pan 2012; Collier & Esteban 2007; Matejek & Gössling 2014; Sigurthorsson 2012). For example, as Sigurthorsson posits in a recent paper on the Icelandic banking crisis, if CSR is unable to distinguish between programs and policies that are little more than public relations rhetoric, then it may be time to rethink the term (Sigurthorsson 2012). Similarly, Baden and Harwood (2013) suggest that CSR language and terminology may be at least partly to blame for CSR's co-optation by economic interests and its subsequent ethical and normative timidity.

The broad idea of connecting individual actions to social outcomes has been embedded in the concept of CSR since at least the 1950s (Carroll 2008; Claydon 2011; Moura-Leite & Padgett 2011). Despite these roots, systemic issues, such as level of analysis problems, micro-to-macro transitions, the emergence of norms, barriers to collective action, and social dilemmas, among others, have received relatively little contemporary attention in the CSR literature (Aguinis & Glavas 2012; Alexander, Giesen, Munch, & Smelser 1987; Beal 2012; Coleman 1990; Kollock 1998; Schelling 1978). The objective of this paper is to reemphasize the inherently systemic character of CSR. In other words, we want CSR to mean something, and we want that "something" to be a sense of responsibility to contribute to desired systemic outcomes. CSR should involve more than a simple concern for societal welfare, it should involve confronting the complexity inherent in connecting individual-level behavior and systemic outcomes. CSR, in its various forms, should require participants to beyond the perception or veneer of social responsibility by verifying that CSR behavior actually contributes to these outcomes. We join with Aguinis and Glavas (2012) and others who have recently called for greater theoretical and multilevel integration and have begun to approach CSR from a more systemic perspective (e.g. Boulouta & Pitelis 2014; Fooks, Gilmore, Collin, Holden, & Lee 2013; Sigurthorsson 2012).

Motivated by these concerns, we propose an approach to CSR that emphasizes the challenges of micro-to-macro transition, the need to make systemic objectives explicit, and the responsibility of system participants to regulate their behavior in order to contribute to these desired objectives. We refer to this approach as systemic CSR. After discussing the distinctive elements of this approach in greater detail, we make the case that businesses, because they are active participants in the social construction of their environment, have a local informational advantage that can be leveraged in self-regulatory efforts. We then revisit a number of the most visible research streams (or sub-areas) in the CSR literature and comment on their systemic elements. We then argue that practical application of systemic CSR should be guided by three general considerations: 1) a focus on value creation, 2) assessment of collective outcomes, and 3) reflective engagement in the micro-to-macro transition process. We conclude by highlighting a number of avenues for future research, including system boundaries, time frame, the nature of agent interaction, and incentives.

SYSTEMIC CSR: DEFINITION & APPLICATION

Attempts to map the CSR field in management have identified a relatively large number of informal sub-areas, distinct streams of scholarly dialogue, and different theoretical approaches (for overviews, see Aguinis & Glavas 2012; Carroll 1999, 2008; Crane, McWilliams, et al. 2008; De Bakker, et al. 2005; Garriga & Mele 2004; Mele 2008; Windsor 2006). Our objective is to revitalize the systemic character of CSR, and we do so in two ways. First, we argue for a distinct sub-area or stream of scholarly CSR dialogue that emphasizes the micro-to-macro problems inherent in CSR research, defines CSR in terms of contribution to desired systemic outcomes, and addresses the challenges associated with locating responsibility for the realization of these outcomes at the level of the organization (or individual business). At the same time, we emphasize both the historical roots of this approach and its relevance for other CSR sub-areas and research streams. In this section we begin by emphasizing the unique characteristics of systemic CSR, and then comment on its application to the broader CSR literature.

Defining Systemic CSR

We define systemic CSR as the moral and practical obligation of market participants to consider the effect of their actions on desired systemic outcomes and to regulate their behavior in order to contribute to the realization of these outcomes. Systemic CSR differs from other CSR research streams in at least three ways. First, it is characterized by an explicit focus on the micro-to-macro transition involved in linking the behavior of system participants to systemic outcomes. This link is often counter-intuitive, contingent, and complex (Aguinis, Boyd, Pierce, & Short 2011; Coleman 1990; Schelling 1978). From this perspective, the question of how market participants can contribute to the realization of desired systemic outcomes is as relevant as the moral (or prescriptive) assertion that they have a responsibility to do so. The question of what the "right" behavior is in different contexts can depend on a confusing array of contingencies, including the types of goods or resources being exchanged or consumed (Hardin 1968, 1998; Ostrom 1990), the way in which participants interact with each other and the incentives involved (Heckathorn 1996; Kollock 1998; Schelling 1978), and the presence of different kinds of market failure, including information asymmetries (Akerlof 1970; Stigler 1961) and network externalities (Arthur 1989; Katz & Shapiro 1985, 1986).

The second distinctive feature of systemic CSR is a return to the notion that systemic objectives matter. If what distinguishes CSR activities from traditional business activities is their contribution to the realization of desired systemic outcomes, then it becomes necessary to make such outcomes explicit. Early work in CSR—work that is, in many ways, more systemic in its approach than contemporary CSR scholarship—explicitly addresses the question of systemic outcomes. For example, Bowen, whose foundational work "provides a clear and refreshing reminder that social responsibility is first and foremost a *systemic concept"* (Acquier, Gond, & Pasquero 2011: 625), includes a chapter in his 1953 book, *Social Responsibilities of the Businessman*, that introduces eleven macroeconomic objectives that anchor his subsequent discussion of CSR (1953). Davis and Blomstrom (1971), in their groundbreaking textbook, *Business, Society, and Environment*, likewise anchor their treatment of CSR in a number of different macroeconomic outcomes. From a systemic perspective, failure to define systemic outcomes highlights "the broad problem of the indeterminacy of the scope and content of the duties that CSR is supposed to address" (Sigurthorsson 2012). It is this indeterminacy that makes CSR susceptible to co-optation and reframing by different organizational stakeholders—and it is this indeterminacy that a revitalization of a systemic approach to CSR is intended to address.

Finally, the third distinguishing characteristic of systemic CSR is its emphasis on the obligation of participants to regulate their behavior in order to bring it into congruence with system-level objectives. Systemic CSR, therefore, challenges a taken-for-granted feature of economic markets—i.e. that participants can focus on individual interests while ignoring the macro- or system-level effects of such behavior. In this context, the distinction between independent and interdependent activity by market participants becomes important. If market participants are influenced by the (anticipated) decisions of other participants, this interdependence violates a number of the basic assumptions required for economic markets to deliver efficient outcomes. This interdependence creates social dilemmas, defined as interaction (or exchange) contexts in which individual-level rationality can produce collectively irrational outcomes (Heckathorn 1996; Kollock 1998; Ormerod 1998; Ostrom 2000). In other words, under the assumption of behavioral interdependence, the pursuit of individual interests by participants cannot be trusted—or outsourced—to the invisible hand of the market mechanism because doing say may lead to suboptimal, inefficient, and even harmful collective outcomes (Beal 2012; Schelling 1978). In some situations—e.g. in contexts when an assumption of behavioral independence can reliably be adopted (Lindblom 2001; Walters 1993)—the pursuit of individual self-interest may be the most effective way to contribute to particular outcomes (as argued by Friedman and others) (Bator 1957; Friedman 1970). In other contexts, however, particularly in situations characterized by social dilemmas, the most effective way to contribute to the realization of certain outcomes may be to engage in behavior that differs significantly from accepted profit-maximizing scripts. In either case, systemic CSR requires participants to carefully monitor and regulate their behavior.

We make two systemic arguments for why system participants should insource responsibility for collective outcomes. First, ethical and legal standards for business do not exist as separate and objective benchmarks outside the business context. These standards are socially constructed and negotiated through processes in which businesses actively participate. In other words, legal and ethical standards for business are influenced by managerial choice and should not be conceptualized as a "totally external referent on which to base a corporate decision" (Ostas, 2001). As Ostas puts it, CSR expects businesses to "recognize the choices incumbent in both legal and market decisions, and to accept responsibility for those choices. This calls upon the manager to use his or her creative moral imagination" (2001, p. 297). Second, Hayek argues that one of the primary virtues of the price mechanism is that it broadcasts enough information to enable market participants to effectively utilize local and/or private knowledge in their economic decisions (1945, 1948) In other words, given that important knowledge exists in a decentralized and distributed form throughout a network of exchange participants, and that this knowledge cannot be centralized in any coherent or useful form, the market mechanism effectively pushes enough information out into the network itself, and distributes it in such a manner, that local (or private) knowledge can be effectively utilized. We repurpose Hayek's arguments to make the same case for the kind of local or private knowledge that is essential to CSR behavior. To the degree that insourcing CSR in the form of voluntary and decentralized self-regulatory efforts is able to tap into dispersed knowledge in broad exchange networks, CSR will have an inherent advantage over centralized regulatory efforts (Ostrom, 1990, 2000, 2010).

Systemic CSR in the Broader CSR Context

Because systemic issues are embedded in almost all CSR approaches, there is a need for a renewed focus on CSR's systemic elements. Table 1 lists a number of CSR subareas or research streams with key sources and associated systemic questions. In some cases, desired systemic objectives are explicit. For example, bottom-of-the-pyramid research attempts to link a particular kind of profit-seeking behavior to the alleviation of poverty in less developed countries. Likewise, the literature on corporate citizenship addresses the question of whether or not the use of citizenship as a metaphor for the extra-economic responsibilities of businesses is likely to improve the administration of citizenship rights. In other cases, more emphasis is placed on organizational-level framing and impact and collective objectives are less explicit.

Insert Table 1 here

We comment below in greater detail on four of these CSR approaches: shareholder value, corporate social performance, normative stakeholder theory and corporate citizenship (see Table 2). We classify each approach as instrumental, integrative, ethical or political (see Garriga & Mele 2004), comment on actor orientation, and provide a brief assessment of the degree to which micro-to-macro transitions have been addressed (see Table 2). Each of these four approaches places different demands on market participants with respect to system-level awareness and willingness to contribute to desired systemic outcomes. For example, shareholder value theory relies on the logic of the perfect competition market model to absolve market participants from the burden of system-level considerations. From this perspective, such considerations can be "outsourced" to the invisible hand of the market, and it is assumed that individual actions will aggregate to produce desired collective outcomes (Friedman 1970; Hayek 1945; Smith 1976 [1776]). In contrast, the corporate social performance approach suggests paying attention to "the broad pattern of social direction in public opinion" (Preston & Post 1981, p. 57) as one way of heightening system-level awareness, while stakeholder theory requires an informed sensitivity to the process of value creation for multiple stakeholders. Finally, the corporate citizenship approach encourages businesses to adopt the metaphor of citizenship as a template for explicit consideration of the link between individual action and the realization of broader objectives of the *polis* (Sison 2011).

Insert Table 2 here

Shareholder Value Theory

From a shareholder value perspective, a business is a legal entity established for the purpose of organizing economic activities with the objective of providing its owners (i.e. shareholders) with a return on invested capital (Friedman 1970; Jensen 2000). While emphasis on shareholder value may appear incompatible with the notion of social responsibility, understood as other-regarding behavior unrelated to the maximization of profit, this may not necessarily be the case. If it is assumed that the primary purpose of an economic system is to maximize general welfare, the question of social responsibility, as it relates to shareholder value, can be reduced to a question of means. Framed as a question, given the larger (societal) objective of economic efficiency, what behaviors by system participants will most effectively contribute to the realization of this objective? Viewed from this perspective, what appears to be an argument against the assumption of social responsibility in favor of a focus on shareholder value can be interpreted as a disagreement about how to most effectively contribute to economic efficiency (Agle et al. 2008, see Freeman's comments on ending the "Friedman-Freeman" debate).

Shareholder value is closely aligned with the perfect competition market model (PCMM) or what has been referred to elsewhere as American Corporate Capitalism (ACC) (George 2014; Kasser, et al. 2007). Although firm-level implications—and individual-level motivations—of the PCMM are often framed in individualistic terms (see Table 1), the PCMM relies on an explicit theory of aggregation that links the actions of individual economic actors (individuals and firms) to particular collective or macro-level outcomes (Bator 1957; Smith 1976 [1776]; Walters 1993). By carefully theorizing of the micro-to-macro link in a way that associates individualistic, utility-maximizing behavior by market participants with optimal collective or macro-level outcomes (e.g. productive and allocative efficiency, maximization of social surplus), the PCMM can legitimately be included in forms of CSR. Although its behavioral prescriptions—an individualistic, utility-maximizing orientation—may seem out of place in a CSR context, if these kinds of behaviors represent the most effective way to deliver desired social outcomes, then such behavior is, in virtue of its ultimate results, socially responsible.

Paradoxically, therefore, from a shareholder value perspective, it is by resisting "pretty words and soft ideas," and by focusing instead on the hard task of maximizing shareholder value, that business leaders contribute most effectively to the social good (Levitt 1958: 41). Contemplation of the body of economic theory behind this counter-intuitive assertion leads to the realization, in the context of shareholder value, that the micro-to-macro link—the systemic connection between individual behavior and macro- or system-level outcomes—has been explicitly and thoroughly addressed in a more rigorous way than in other CSR approaches (see Table 1). This is not a defense of the PCMM (or ACC), merely a recognition of the need to more explicitly address the micro-to-macro transition in other CSR contexts. It is also ironic (but perhaps, understandable) that the shareholder value approach—an approach that requires minimal systemic awareness on behalf of individual economic actors—has gone further than many CSR approaches in theorizing the micro-to-macro linkages that connect its individual behavioral prescriptions and its stated macro-level objectives or outcomes.

Corporate Social Performance

A corporate social performance (CSP) perspective adopts as a normative starting point the notion that with economic power come social responsibilities that may be distinct from the pursuit of profit (Carroll 1979; Swanson 1995; Wartick & Cochran 1985; Wood 1991, 2010). These responsibilities should manifest themselves as responsiveness to social demands, even if these demands are situated beyond the contractual or legal obligations of the firm. Society, in other words, has extended business a license to operate, and if societal expectations are not met, this license may be amended in significant ways or rescinded altogether. Consequently, Wood (1991) proposes a comprehensive CSP model in which business response to societal demands is structured into principles, processes and outcomes, with each of these components subdivided into additional categories and constituent parts.

The CSP perspective introduces the notion that societal expectations may be communicated in other ways than through shifts in aggregate supply and demand, and that market participants should therefore observe not only “the literal text of law and regulation, but also the broad pattern of social direction reflected in public opinion, emerging issues, formal legal requirements, and enforcement or implementation practices” (Preston & Post 1981, p. 57). Responding effectively to shifts in societal expectations requires attention to social and political environments and purposeful adaptation to changing social contexts. Although this requires a degree of social awareness beyond that demanded by shareholder value theory and the PCMM, CSP is primarily reactive in nature, and remains tethered to the shareholder value perspective, given that organizational performance is generally defined in ways that privilege shareholders and improving this performance remains the primary motivational force behind CSP initiatives. In addition, there has been relatively little effort to explicitly link CSP behavior to improved macro-level outcomes. The danger in ignoring the micro-to-macro link, as we articulate more fully below, is that this relationship may be counter-intuitive (as the shareholder value approach demonstrates) and there is no guarantee that more "socially aware" actions by individual economic actors will lead to more socially responsible macro- or system-level outcomes.

Normative Stakeholder Theory

Initially proposed in the early 1980s as a new conceptual framework for the strategic management of the modern corporation (Freeman 1984), stakeholder theory reframes CSR in terms of multiple and complex relations between business and the various categories of social agents with whom it interacts. Stakeholders are defined as “those groups and individuals that can affect, or are affected by, the accomplishment of organizational purpose" (Freeman 1984, p. 25). From this perspective, the firm is viewed as a nexus of overlapping and competing interests that are managed in such a way that value is created for all stakeholders (Freeman & Liedtka 1991; Freeman & Velamuri 2006). Corporations are "connected sets of stakeholders, all of whom are 'in it together'" (Freeman & Liedtka 1991, p. 97).

Importantly, from a normative stakeholder theory perspective, the immediacy of profits is not the overriding factor in prioritizing competing interests (Argandoña 1998; Donaldson & Preston 1995; Freeman, et al. 2010). In contrast to the PCMM (or ACC), normative stakeholder theory represents a dynamic, interactive, and collaborative approach to value creation that encourages a long-term view of ongoing relationships and business sustainability (Freeman, et al. 2010; Laplume, et al. 2008). Although normative stakeholder theory explicitly encourages what we describe as a "cooperative" actor orientation (see Table 1), we have two reservations about its capacity to address larger systemic issues. Because stakeholder networks are generally smaller and less complex than the larger social systems in which organizations are embedded, normative stakeholder theory may not be an ideal template for moving beyond the boundaries of the firm to address systemic issue at the industry, national and/or global level of analysis. If this theory is to be effective in larger systemic contexts, additional work may need to be done to flesh out the mechanisms through which cooperative interaction at the organizational level—guided by what Freeman refers to as a "new narrative of capitalism" (Freeman, et al. 2010: 269)—will produce desired macro- or system-level outcomes.

Stakeholder theory's "normative core" (Freeman 1994: 413) have been explored from a number of different philosophical perspectives (Argandoña 1998; Burton & Dunn 1996; Donaldson & Dunfee 1994; Phillips 1997), and Freeman himself (e.g. Freeman 2000; Freeman, et al. 2010) has been explicit about stakeholder theory's aspirations to reshape the underlying narratives of capitalist political economy. While the attractiveness and fungible nature of stakeholder theory's core principles of action—particularly in contrast to the PCMM's (or ACCs) rational, competitive, and narrowly-self-interested *homo economicus*—have almost certainly contributed to its widespread dissemination across different business disciplines, theories that address system behavior must be accompanied by attention to the micro-to-macro transition and, in our view, this aspect of stakeholder theory is still more emergent (see, for example, Bridoux & Stoelhorst 2014; Freeman 2010; Rowley 1997; Verbeke & Tung 2013). Because stakeholder theory operates at different levels of analysis, it is important to recognize that there is a need to connect the behavior of individual stakeholders to the characteristics and features of the organization of which they are a part and, simultaneously, to connect the actions of individual organizations to the characteristics and features of larger economic systems, such as industries, sectors, and the global marketplace.

Corporate Citizenship

The term "corporate citizenship" was popularized and promoted in practitioner circles by managers, consultants and the business press, before it took root in the academic literature (Altman & Vidaver-Cohen 2000; Matten, et al. 2003). As initially conceptualized by a number of scholars, corporate citizenship described a particular strategic organizational posture that was associated with local philanthropic efforts, targeted community investment, and other activities designed to contribute to the health and stability of an organization's economic, social and political environment (e.g. Waddock 2000). These activities were often framed as "enlightened" self interest and justified in financial terms (Crane, Matten, et al. 2008a, 2008b; Matten & Crane 2005). Corporation citizenship has also been employed as a synonym for the broader concept of

CSR (Crane, Matten, et al. 2008b). Matten and colleagues have described these two approaches as the "limited view" and the "equivalent view" of corporate citizenship, respectively, and asserted that neither approach adequately explores the concept of organizational citizenship (Crane, Matten, et al. 2008b; Matten & Crane 2005; Matten, et al. 2003). Others have suggested that this conceptualization of corporate citizenship, with its simplistic emphasis on "giving back" and "tit-for-tat" reciprocity (Wood & Logsdon 2002: 65), represents a convenient reframing of CSR that moves away from broad moral and ethics-based concerns, and is therefore less threatening to popular notions of capitalist political economy. In this vein, what some scholars characterize as "enlightened" self-interest others describe as conscience laundering (Harvey 2014).

Recently, a third approach to corporate citizenship has emerged that explicitly focuses on the idea that the metaphor of citizenship can serve as a basis for a political conceptualization of the firm (Logsdon & Wood 2002; Windsor 2001; Wood & Logsdon 2001, 2002). Referred to by Matten and colleagues as an "extended view of corporate citizenship," this approach asserts that the modern corporation can play an important role in safeguarding individual citizenship rights (Matten & Crane 2005) and, as a political actor, in shaping larger "rule-finding discourses" and "rule-setting processes" (Pies, et al. 2014: 232). This perspective has opened up a spirited dialogue regarding the nature of citizenship and the ontological status of the corporation (e.g. Ablander & Curbach 2014; French 1979; Sison 2011; Wood & Logsdon 2002). It has also provoked enthusiastic resistance from those who view a political role for corporations as fundamentally incompatible with the self-interested, profit-maximizing DNA of business institutions (Barley 2007; Néron & Norman 2008; van Oosterhout 2005, 2008, 2010).

Despite these challenges, significant progress has been made in extending the concept of corporate citizenship into the global arena where transnational and multinational corporations are actively engaged in shaping normative and regulatory governance structures (Palazzo & Scherer 2008; Scherer & Palazzo 2007, 2011; Scherer, et al. 2006; Scherer, et al. 2014). In many ways, this body of work by Scherer and colleagues exhibits a systemic focus that both parallels and complements our efforts to reintroduce systemic thinking into the broader CSR dialogue. Put simply, in this extended conceptualization, corporate citizenship is employed as a metaphor that enables businesses to transcend their role as a broker for a finite set of specific stakeholders by framing their behavior in broader systemic terms (e.g. as a corporate citizen in an emerging global society). Corporate citizenship, therefore, invokes a cooperative actor orientation (see Table 1). Although the specific mechanisms—the micro-to-macro link through which cooperative citizenship behavior by organizations contributes to desired macro- or system-level outcomes—is still emergent, significant progress has been made. Pies, Beckmann and Hielscher (2014), for example, address the challenges associated with value creation and the pursuit of the Aristotelian concept of self-perfection (applied to business organizations) in institutional contexts characterized by social dilemmas, stable but inefficient collective outcomes (i.e. collective irrationality), and perverse incentives.

Regardless of the specific approach, CSR can be characterized as an effort to understand and/or manage systemic outcomes by analyzing and/or changing the behavior of system participants. Viewed this way, CSR's progression from description to prescription makes intuitive sense, given that efforts to produce desired systemic outcomes (e.g. alleviation of poverty, stewardship of the environment, economic prosperity) often find traction in efforts to change the behavior of individual participants that populate these systems. Absent behavioral prescriptions, however, we now turn to the practical question of how system participants can regulate their behavior in order to contribute to the realization of desired systemic outcomes.

SYSTEMIC CSR: GUIDING PRINCIPLES FOR INDIVIDUAL ACTION

We observe that businesses routinely demonstrate their ability to think in systemic terms in strategic contexts that require it. For example, textbooks on corporate strategy often discuss such topics as network externalities, winner-take-all markets, coordination problems, cooperative strategies, game theory, the economics of information, and other situations that require systemic awareness. If businesses can address systemic issues in these contexts, then they can also apply systemic logic in furtherance of collective (or system-level) objectives. Because the social processes through which individual actions are aggregated to produce collective outcomes are often complex, we offer three general principles that market participants can use as conceptual guideposts: 1) A focus on value creation, 2) Assessment of collective outcomes, and 3) Reflective engagement in the aggregation process.

Focus on Value Creation

Systemic CSR emphasizes value creation as the primary purpose of business activity. As Wheeler and colleagues state, the "creation of value is the central motive force of market economies, and by extension the primary purpose of private enterprise" (Wheeler, Colbert, & Freeman 2003, p. 2). The importance of an explicit emphasis on value creation becomes apparent when it is recognized that prices may not accurately reflect value. Where this occurs, the profit derived by subtracting costs from revenue (as traditionally calculated) is unreliable indicator of the value created. Value creation has been theorized as a function of the utility a customer places on a product ('utility to consumer'), of the 'product price', and of the 'cost of production' to the firm (Besanko, Dranove, Shanley, & Schaefer 2010; Hill & Jones 2010, pp. 77-81).

Profit maximization will lead to value creation when the following conditions are met: 1) The cost of production represents the total product costs (i.e. no costs are unaccounted for), 2) The value to the consumer represents the total value of the product (i.e. no benefits are unaccounted for), and 3) There is no further advantage to be derived by the individual economic agent from engaging in cooperative behavior with other economic agents. Instances in which market participants fail to accurately incorporate all the costs of production into their decision calculus are plentiful, e.g. when costs associated with pollution and other negative externalities are ignored. On the other hand, cases in which the benefits of a particular product or service can only be appropriated in part by consumers may result in situations in which individual-level profit fails to accurately represent the value creation process (Santos 2012).

There are also contexts in which benefits may be derived from cooperative behavior among individual economic agents. A classic example is the "tragedy of the commons" (Hardin, 1968), in which individuals make individual-level utility maximizing decisions regarding usage of shared resources and such decisions result in the collective mismanagement and/or depletion of those resources (Hardin 1968; Kollock 1998). "Standards wars" represent another example of this kind of situation (Shapiro & Varian 1999). Pies, Meckmann, and Hielscher argue that when firms are forced to confront situations involving perverse incentives that are likely to produce suboptimal collective outcomes, they should focus on "perfection of the institutional order" by actively participating in the "relevant meta game of governance" and contributing to "reforming the rules of the game" (2010: 245). Research on multi-stakeholder initiatives and other types of "soft-law" regulation (Gilbert, Rasche, & Waddock 2011; Mena & Palazzo 2012; Norman 2011) further illustrates that systemic CSR may involve not only individual behavior, but also participation in cooperative or collective attempts to shape the structure of the larger institutional context in which this behavior takes place.

Assessment of Collective Outcomes

Familiarity with economic markets, and the fact that markets can (and often do) coordinate individual actions to produce beneficial collective outcomes, has engendered a significant amount of trust in market-based systems (Kuttner 1997). In reality, however, markets are prone to suboptimal outcomes in certain predictable circumstances (Schelling 1978; Stiglitz 2000) and outcomes derived from individual-level responses to aggregate supply or demand signals, or those resulting from either the presence or absence of collective action, can often be improved upon. For instance, the absence of a park in a particular subdivision or neighborhood should not be viewed as an indication that there is no “demand” for a park. The costs of collective action, and problems inherent in supplying public goods, such as individual-level incentives to engage in free-riding behavior, may prevent the building of a park—an action which would create significant value for the individuals in the neighborhood (e.g. availability of recreational opportunities, quality of life, higher property value, etc.). At a system level, boom-and-bust waves in different markets and industries, price spikes, investment manias, speculative bubbles, bank runs, free rider scares, negative externalities and other “rational irrationalities” are situations in which collective outcomes could be improved significantly if individual participants allowed their behavior to be shaped by a desire to create collective value rather than a narrow focus on individual utility maximization (Caplan 2001). Systemic CSR, therefore, has the potential to create significant social value by encouraging efficient self-regulation of negative externalities, enlightened and visionary contribution to positive externalities, and cooperation as a means of resolving social dilemmas (see, for example, Lauesen 2013).

Reflective Engagement in the Aggregation Process

In practice, from a systemic CSR perspective, business should incorporate aggregation logic into their operational and/or strategic decisions. This calls for an appreciation of the challenges and complexities of the micro-to-macro transition and the aggregation process (see Coleman 1990, particularly Chapter 1). Two primary aggregation logics in management thinking are the PCMM, and the game-theoretical or rational choice approach to social dilemmas. The PCMM, as developed by theorists and enacted by practitioners and other market participants, relies on a well developed theory of aggregation. It identifies systemic objectives (i.e. wealth creation), prescribes individual participant behavior (i.e. utility maximization), and then illustrates how the actions of individual participants, in aggregate, lead to desirable system-level outcomes. It is only because the contours of the PCMM are familiar that it seems unremarkable that self-interested individual behavior is often the most effective way to contribute to desirable collective.

In contrast to the PCMM, the aggregation process involved in social dilemma situations is more complex and less well understood. Social dilemmas are defined as interaction (or exchange) situations in which, due to actor interdependence, individual-level rationality can produce collectively irrational outcomes. Examples of common types of social dilemmas include the prisoner's dilemma, the assurance game, the chicken game, the social fence dilemma, the tragedy of the commons. Ostrom (1990, 2000, 2010), in particular, has pioneered work on the resolution of these types of dilemmas. Solutions generally involve either the expansion of the definition of self-interest to include systemic considerations (as systemic CSR suggests), or cooperative approaches in which participants monitor individual behavior, provide selective incentives, set up sanctioning systems, or establish an external authority (Kollock 1998). Both the PCMM and theories of collective action recommend general solutions to broad classes of interaction and exchange situations. Systemic CSR suggests a contingent approach to aggregation. Businesses should reflectively engage in the aggregation process and should find local solutions to idiosyncratic challenges.

CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH

We began this paper by defining systemic CSR as the practical and moral obligation of market participants to consider the effect of their actions on desired systemic outcomes and to regulate their behavior so that it contributes to those outcomes. We argued that systemic CSR is unique in its explicit focus on the micro-to-macro transition (i.e. the process of aggregation), systemic objectives, and the need to actively insource responsibility for contribution to the realization of those objectives. From a systemic perspective, we briefly commented on shareholder value theory, corporate social performance, stakeholder theory, and corporate citizenship, with a view to emphasizing systemic elements of CSR in the current literature. We then argued that the application of systemic CSR should be guided by three general principles: 1) a focus on value creation, 2) ongoing assessment of collective outcomes, and 3) reflective engagement in the aggregation process. Increasingly sophisticated frameworks and models are now available to firms for assessing contributions to value creation beyond traditional profitability metrics (see, for example, Beal 2014; Daza 2009; Dincer & Dincer 2012; Fifka & Drabble 2012; Marimon, Alonso-Almeida, Rodríguez, & Cortez Alejandro 2012). Firms should be reluctant to rely on price signals as reliable indicators of efficiency and should be actively engaged in the aggregation process.

Although we have defined the concept and outlined its main practical principles, considerable work remains to be done. Recent criticisms of CSR have highlighted problems related to incentives and enforcement mechanisms (Karnani 2010, 2011a, 2011b; Vogel 2005). We argue that social expectations and norms can serve as powerful constraints on individual behavior and can, in many cases, bring individual incentives in line with system objectives. Just as part of the genius of the market mechanism can be traced to the ways in which decentralized knowledge can be leveraged by individual market participants, part of what makes systemic CSR compelling is its potential for leveraging this same type of embedded knowledge for a broader purpose through voluntary self-regulatory efforts. Because systemic CSR relies on group expectations and norms to promote systemically responsible behavior by individual participants, it provides a practical resolution to the ongoing debate about whether or not companies have social responsibilities (see, for example, Karnani, 2011b; Rivoli & Waddock, 2011). Although it has been argued that conforming to societal norms and expectations is not CSR, we assert just the opposite, particularly in situations in which individual businesses enjoy an informational advantage. Further, Karnani (2010) insists that laws and external regulation are more likely to be effective in forcing firms to engage in actions directed towards the public good. In reply, we suggest that systemic CSR is itself a form of regulation, albeit an internalized one, and has the potential to be even more effective, under certain circumstances, than more traditional (i.e. centralized) regulatory efforts. Recent work on self-regulation, multi-stakeholder initiatives, and different governance modes illustrate the potential value of a more systemic approach to CSR (Gilbert, et al. 2011; Mena & Palazzo 2012; Norman 2011; Rasche & Gilbert 2012; Yue, Luo, & Ingram 2013).

There is a need for empirical research on contexts in which non-market aggregation logics yield collective outcomes that are superior to those produced by individual profit maximization. Although strategy texts incorporate, in a limited way, discussions of some of these different contexts (e.g. standards wars, network externalities, technological lock-in, information economics, etc.), the lack of empirical analysis of these topics in the CSR literature is cause for concern, given the extensive empirical work from other disciplines that could be used to ground such efforts. In situations in which it is recognized that market activity is likely to lead to suboptimal outcomes, participants should engage, either individually or collectively, in behavior that will improve outcomes even though doing so may require participants to deviate from traditional utility-maximizing scripts. In some cases, for example, the level of demand for a particular product cannot be assumed to be optimal, even though it may be stable over time and/or appear to be the product of market processes (Beal, 2012).

The case of Lojack, a radio-transmitter device used to locate stolen vehicles, illustrates this problem (Ayres & Levitt 1998). Lojack is a security device for automobiles. If a vehicle with Lojack is stolen, the device can be activated and used to quickly determine the vehicle's location. Installation of a Lojack system costs approximately $600. Because the device is hidden in the vehicle, it provides very little deterrent benefit to the individual consumer. Although the device provides only limited direct benefit, it provides significant benefit to the larger community. Because of the speed and accuracy with which stolen "Lojacked" vehicles can be tracked, "chop-shops" are more likely to be discovered and shut down, and car thieves are significantly more likely to be apprehended and jailed. This often leads to a significant reduction in overall car thefts. One study estimates that, in certain communities, every three Lojack installations prevent one annual car theft (Ayres & Levitt 1998). This same study estimates that individual customers obtain less than 10% of the social value of the product. In this case, and in other situations in which significant benefits from particular products and services accrue to third-parties not involved in the transaction (i.e. there are positive externalities), individual-level profits under-represent the value created. In this case, profit-maximizing decisions will lead to an underproduction of goods with significant value at system level.

How firms work either individually or collectively, to address these types of situations should be of particular interest to CSR scholars. Ostrom's work in behavioral economics, for example, could be adapted to study collective action among publicly-traded firms. Similarly, findings from social psychology could be used to guide firms in resolving social dilemmas. For example, Bridoux, Coeurderoy and Durand (2011) explicitly draw on research on social dilemmas in social psychology and behavioral economics to generate a number of interesting propositions related to firm incentive systems. Research on contextual factors such as system boundaries, time frame and the nature of agent interaction, is also important. From a systemic perspective, a firm needs to be able to provide a specific answer to each of the following questions: (1) What are the scope and limits of the system envisaged as a target for the value creation process? (2) What time frame is appropriate for the calculation (or estimation) of system-level utility? and (3) What types of agent interaction (e.g. independent or interdependent) characterize the particular circumstances in which the value creation process is carried out?

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Table 1: Subareas of CSR Research with Key Systemic Question(s)

Subarea	Key Cites	Key Systemic Question(s)
Bottom of the Pyramid	Adler, 2008; Kolk, Rivera-Santos, & Rufin, 2014; Prahalad, 2005; Prahalad & Hammond, 2002	Will MNEs, motivated by traditional market incentives (e.g. profit), invest in the world's poorest markets, and will this investment, considered collectively, lead to the alleviation of poverty?
Corporate Citizenship	Crane, Matten, & Moon, 2008b; Matten & Crane, 2005; Matten, Crane, & Chapple, 2003	Can corporate citizenship, as a political conceptualization, contribute to the societal governance of corporations, management of the business-society relationship, and administration of the citizenship rights of individuals?
Corporate Social Performance	Carroll, 1979; Swanson, 1995; Wood, 1991	Will a set of CSR principles, applied at the organizational level, contribute to social responsiveness processes that, in turn, will lead to desired systemic outcomes (or impacts)?
Creating Shared Value	Porter & Kramer, 2006, 2011	Will a renewed organizational focus on creating value, broadly defined to include both economic and social elements, result in a more sophisticated form of capitalism that will more effectively contribute to the realization of desired system-level objectives?
CSP-CFP Debate	Griffin & Mahon, 1997; Orlitzky, Schmidt, & Rynes, 2003; Schreck, 2011; Ullmann, 1985; Wood, 2010	Can organizational CSR initiatives simultaneously contribute to the realization of desired systemic objectives and, through various feedback mechanisms, enhance organizational financial performance?
Firm as Political Actor	Pies, Beckmann, & Hielscher, 2014; Scherer & Palazzo, 2007, 2011; Scherer, Palazzo, & Baumann, 2006; Scherer, Palazzo, & Matten, 2014	Can organizations participate, as social actors, in rule-setting processes (politics) and rule-finding discourse (public discourse) in ways that contribute to the realization of desired systemic outcomes?
Issues Management	Fassin & Van Rosem, 2009; Vogel, 1986; Wartick, 1994	Will enhancing interest-driven organization-based responsiveness to social and political issues contribute to the realization of desired systemic objectives?
Natural Resource-Based View of the Firm	Berchicci, Dowell, & King, 2012; Hart, 1995; Hart & Dowell, 2011	Can an explicit organizational focus on environmental stewardship simultaneously contribute to the collective objective of sustainable utilization of the natural environment and, through various feedback mechanisms, serve as a basis for the development of organizational competitive advantage?
Risk Management & Reputational Insurance	Fombrun & Gardberg, 2000; Godfrey, 2005; Godfrey, Hatch, & Hansen, 2010; Jo & Na, 2012	If firms contribute to desired systemic outcomes, particularly in controversial industries, does it reduce organizational risk? And if so, through what machanisms?
Shareholder Value	Friedman, 1970; Jensen, 2000; Sundaram & Inkpen, 2004a	In practice, under what conditions will organizational efforts to maximize shareholder returns contribute to the realization of desired systemic outcomes?
Socially Responsible Investing	Berry & Junkus, 2013; Capelle-Blancard & Monjon, 2012; Fowler & Hope, 2007	What is the impact, both at the organization- and system-level, of applying different societal expectations and norms to the investment decisions of financial intermediaries? How and by whom are these norms applied?
Stakeholder Management	Agle, Mitchell, & Sonnenfeld, 1999; Bridoux & Stoelhorst, 2014; Mitchell, Agle, & Wood, 1997	What organizational approach to sorting, prioritizing, and managing different stakeholders and/or stakehoder demands will contribute the most to the realization of desired systemic objectives?
Stakeholder Theory	Donaldson & Preston, 1995; Dunfee, 2008; Freeman, 1984; Freeman, Harrison, Parmar, & De Colle, 2010; Laplume, Sonpar, & Litz, 2008	Will reorientation of organizational purpose towards value creation and reassessment of the processes through which this value is distributed to different stakeholders contribute to more desirable systemic outcomes?

Table 2: Systemic Elements of Four CSR Approaches

Theory	Theory Type*	Actor Orientation	Micro-to-Macro Transition	Key Cites
Shareholder Value	Instrumental	Individualistic	Well-Developed	Friedman, 1970; Jensen, 2000; Kasser, Cohn, Kanner, & Ryan, 2007; Sundaram & Inkpen, 2004a
Corporate Social Performance	Integrative	Individualistic (but Constrained)	Not Directly Addressed (Borrowed from Shareholder Value)	Carroll, 1979; Ho, Wang, & Vitell, 2012; Swanson, 1995; Wartick & Cochran, 1985; Wood, 1991, 2010
Stakeholder Theory	Ethical	Cooperative	Emergent (e.g. microfoundations, new narrative of capitalism)	Donaldson & Preston, 1995; Dunfee, 2008; Freeman, 1984, 1994; Freeman, Harrison, Parmar, & De Colle, 2010; Freeman, Rusconi, Signori, & Strudler, 2012; Laplume, Sonpar, & Litz, 2008
Corporate Citizenship	Political	Cooperative	Emergent (e.g. global normative and regulatory governance structures)	Crane, Matten, & Moon, 2008a, 2008b; Matten & Crane, 2005; Palazzo & Scherer, 2008; Pies, Beckmann, & Hielscher, 2014; Scherer, Palazzo, & Matten, 2014

**Based on Garriga & Mele's (2004) Overview of the CSR Literature*